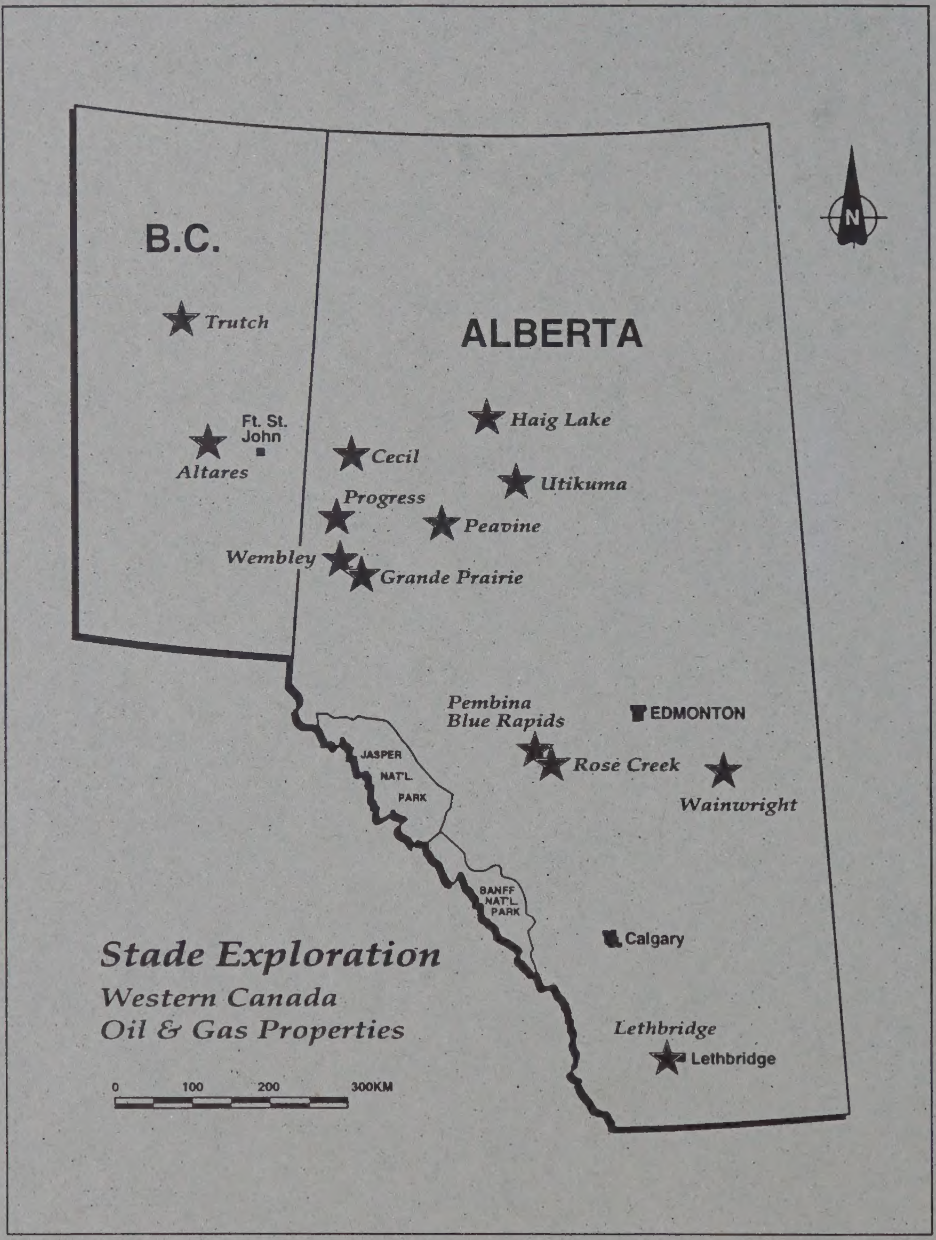
STADE EXPLORATION INC.

1994 ANNUAL REPORT

Corporate Profile

Stade Exploration Inc. is a junior oil and gas exploration, development and production company based in Calgary, Alberta. The Corporation has the management, technical expertise and ability to generate its own exploration prospects, operate its own wells, and evaluate opportunities within the industry. The Corporation is committed to improving shareholder value through the exploitation of its existing land inventory and by developing oil & gas reserves on its many geological prospects.

The common shares of Stade Exploration Inc. trade on the Alberta Stock Exchange under the symbol SXP.A. Golden Rule Resources Ltd., a well financed mineral exploration company based in Calgary, Alberta is the Corporation's major shareholder, holding approximately 28% of its Class "A" shares. At the time of this writing, the Corporation had 18,117,597 shares issued and outstanding.



Annual and Special General Meeting

The Annual and Special General Meeting of the shareholders of Stade Exploration Inc. will be held on June 22, 1995, 2:30 PM, in the Gold Room of One Palliser Square, 2nd Floor, 125 - 9th Avenue S.E., Calgary, Alberta.

CORPORATE HIGHLIGHTS

	Year Ended December 31	
	1994	1993
FINANCIAL **($ except share amount)**		
Oil and Gas Revenue	417,810	245,615
Earnings (After Tax)	72,617	24,695
Cash Flow from Operations	190,617	55,302
Debt	0	688,197
Capital Expenditures	2,546,285	470,914
Weighted Average Number of Shares Outstanding	10,225,101	6,699,100
OPERATING		
PRODUCTION		
Oil Production (bopd)	29	29
Gas Production (MCFD)	391	46
Oil and Gas Production (BOEpd)	68.1	33.6
Production Expenses ($/BOE)	3.36	4.92
Production Potential (BOEpd)	400	33.6
RESERVES		
Proven Plus Probable Oil (bbls)	154,504	134,100
Proven Plus Probable Gas (MCF)	5,614,151	231,000
Proven Plus Probable Oil & Gas (BOE)	715,919	157,200
Reserves Discovered (BOE)	583,554	0
Reserve Life Index (Years)	28.8	12.3
LAND HOLDINGS		
Gross (acres)	39,237	21,457
Net (acres)	10,665	4,792
DRILLING ACTIVITY		
Oil Wells (Gross/Net)	1/0.23	0
Gas Wells (Gross/Net)	7/3.6	0
Dry Holes (Gross/Net)	1/0.4	0
Success Rate (%)	89	n/a
Stade Operated	2	0
Average Working Interest (%)	47.1	n/a
Finding Cost ($/BOE)	3.57	n/a

MCF per day on extended test. The Company drilled a second well on its 100% acreage at 9-21-8-22 W4 in early December and cased it for both Bow Island and Basal Colorado gas. Stade then purchased a 100% interest in Section 22, directly offsetting the 9-21 well, from the Crown. Subsequent to year end, the Company earned a 100% interest in a further 1280 acres by drilling the well Stade et al Penny 4-33-8-22 W4. The well was cased for Basal Colorado and Bow Island gas and is currently awaiting completion. The Company also participated with a 9.67% interest in a Bow Island discovery at 8-36-8-23 W4 which is currently being completed. Stade owns an interest in 5057 gross (4479 net) acres on the Lethbridge prospect and could drill an additional 3 locations on the property in the future. Stade is currently negotiating pipeline transportation and marketing opportunities to sell up to 3 MMCFD from the property. Onstream date is scheduled for November 1, 1995.

Gold Creek

Gold Creek will be a significant area of oil development for the Company in 1995. The Company purchased a 50% interest in 640 acres of Crown land on this prospect from an industry partner in September of 1993. The lands offset a developed Doe Creek Oil pool to the south. In October of 1994, the Company negotiated a farmin on section 12-70-6 W6, directly east of its 50% lands. Stade then participated with a 23.33% interest in the drilling and completion of a Doe Creek oil well at 6-12-70-6 W6. The well came on production at the rate of 100 barrels of oil per day and has since stabilized at approximately 60 barrels of oil per day. In the second quarter of 1995, Stade will participate in the drilling of three additional development wells on this prospect and forecasts a significant increase in oil production and cash flow from the area. Further development of the area by infill drilling or water flooding will be investigated upon the completion of the development program. Stade currently owns interests in 1280 acres (gross) and 469 acres (net) on its Gold Creek prospect.

Wembley

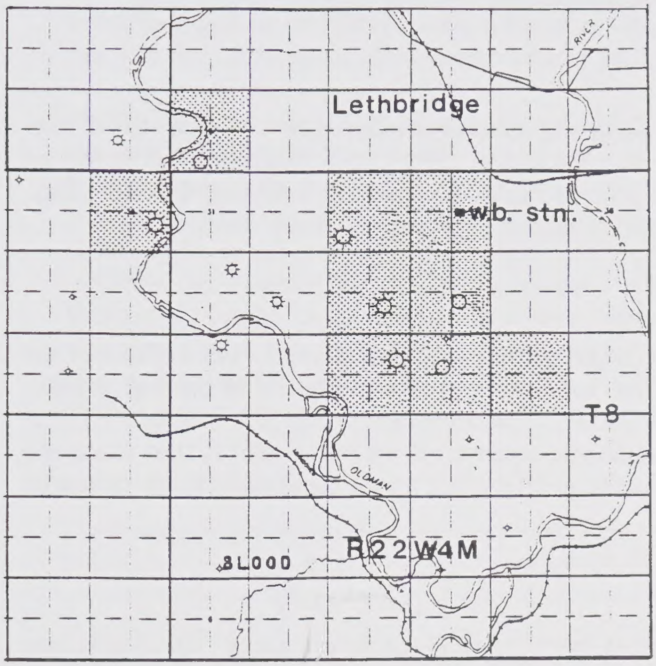
Stade participated with a 50% working interest in the drilling, completion, and tie in of two wells on its Wembley prospect in 1994. The first well was drilled on a 640 acre farmin from an industry partner at 4-26-71-8 W6 and was completed as a Doe Creek gaswell. A second well was drilled at 4-35-71-8 W6 and completed as a Dunvegan gas well with a stabilized wellhead absolute open flow potential of 1.1 MMCFD. The Company also purchased a 25% interest in 640 acres southwest of the 4-26 well from the Crown that is prospective for gas in the Doe Creek formation. Both the 4-26 and 4-35 wells were placed on production in late August 1994 at a combined rate of 1.8 MMCFD. The gas is contracted to Crestar Energy Inc. under a long term agreement at very favourable prices. Subsequent to year end, Stade purchased a 50% interest in 640 acres of land immediately offsetting the 4-26 well to the east. Compression facilities, to improve thru put from the wells, were installed and put into operation in mid March. Stade is currently preparing to drill a third well on its Wembley prospect at 16-15-71-8 W6 and further locations are being contemplated. The 16-15 well will be tied in immediately under the terms of our long term gas purchase contract. Stade currently controls 2560 acres (gross) and 1120 acres (net) on the Wembley prospect and has an option to acquire interests in several other sections of land on the play.

Progress

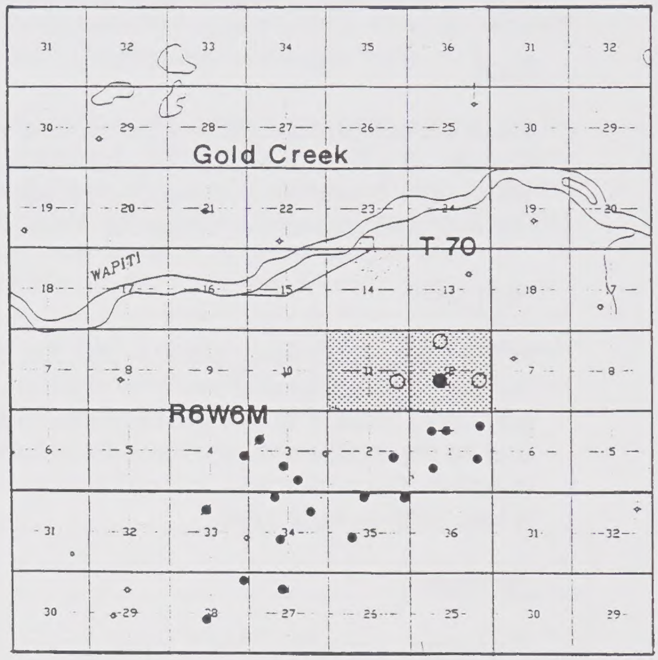
Stade's Progress prospect generated a significant amount of activity in 1994 and is viewed as an important building block for the Company's future growth. The Company participated with a 25% working interest in the drilling of a Doig gas discovery at 6-10-77-9 W6 in early 1994. The well was completed and tested yielding a stabilized wellhead absolute open flow potential of 3.6 MMCFD with 13.2 barrels of oil per million cubic feet of gas. Stade subsequently purchased a 25% interest in Sections 4 and 5 from the Crown, directly southwest of the 6-10 well. A farmin on Sections 7, 8, and 9 immediately west of Section 10, was negotiated whereby the Company could earn a 17.857% interest. The Company proceeded to drill the second and third wells on the prospect at 5-9-77-9 W6 and 10-8-77-9 W6 to earn its interest. Both wells were completed as Doig gas wells. The 6-10 well was placed on production in mid November at a rate

of 2 MMCFD and 26 barrels of oil per day. Both the 5-9 and 10-8 wells are scheduled to be tied in during the second half of 1995 as pipeline space and processing facilities free up. Stade's share of production from the three wells is forecast to be 1200 MCFD and 15 barrels of oil per day. Stade currently controls 3840 acres (gross) and 823 acres (net) on the Progress prospect.

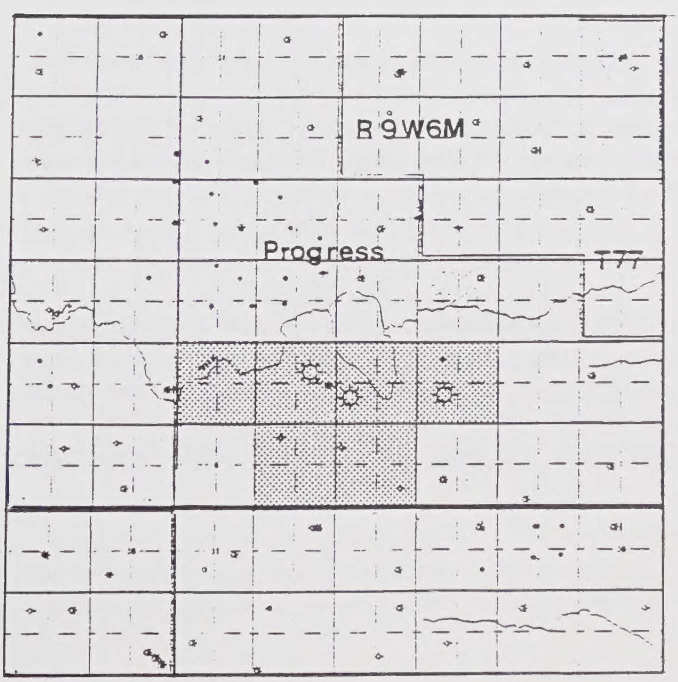
Lethbridge Prospect



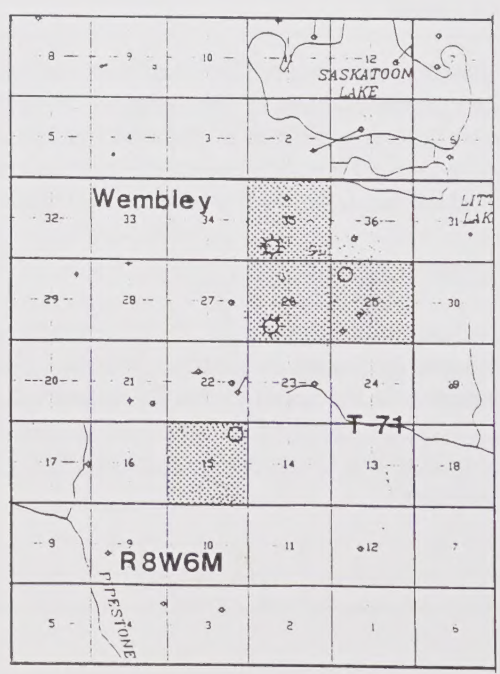
Gold Creek Prospect



Wembley Prospect



Progress Prospect



Rose Creek and Pembina

The Rose Creek and Pembina properties, initially purchased in 1991, were the only oil and gas assets of Stade until late in 1993. This Cardium production provides a stable, long term source of cash flow to the Company. In 1994, the Company participated with a 10.5% interest in an attempt to reenter an old well and complete it as a horizontal producer. The operation was unsuccessful after the wellbore apparently intersected a sand that was in communication with the pool's water injection scheme. Further exploitation of the Company's Rose Creek and Pembina properties will be undertaken in 1995 with the drilling of at least 2 infill development wells. Stade's net production from Rose Creek and Pembina in 1994 was 26.4 bopd and 55 MCFD. Stade has interests in 12160 acres (gross) and 744 acres (net) in this area.

Cecil

Stade's Cecil prospect is located in Northwestern Alberta and is situated between the main Cecil and Worsley oil fields. The Company purchased 5120 acres (gross) and 1280 acres (net) from the Crown in 1994. The lands are prospective for significant gas and oil reserves from the Bluesky, Charlie Lake, Halfway, and Wabamum formations. Further acquisition of lands in the area is being reviewed.

Haig Lake

In late 1993, Stade participated in purchasing 2560 acres (gross) and 1024 acres (net) from the Crown on the Haig Lake prospect in North Central Alberta. The lands are located adjacent to several prolific producing oilfields including Sawn Lake, Ogston, Otter and Red Earth and are prospective for oil from the Granite Wash, Gilwood, and Slave Point formations. Additional seismic will be purchased on the prospect to further delineate a well defined geological anomaly with the intent that a well be drilled on the property in late 1995 or early 1996.

Peavine

Stade has interests in 1600 acres (gross) and 271 acres (net) on its Peavine prospect. The lands are highly prospective for oil and directly offset a Granite Wash oil well that has produced in excess of 280,000 barrels of oil and is continuing to produce at an average rate of 134 bopd. The Company will be purchasing or shooting additional seismic on the property prior to committing to the drilling of a well at Peavine.

Utikuma

Stade purchased a 50% interest in two quarter sections licences on its Utikuma prospect in late 1994. The lands are situated in the midst of the prolific Utikuma Keg River oilfield and offset wells with cumulative production in excess of 400,000 barrels of oil. Subsequent to year end, the Company operated the drilling of a well on its Utikuma lands that was later abandoned. Valuable information was gained from the well that will be used in the selection of future wells on the prospect.

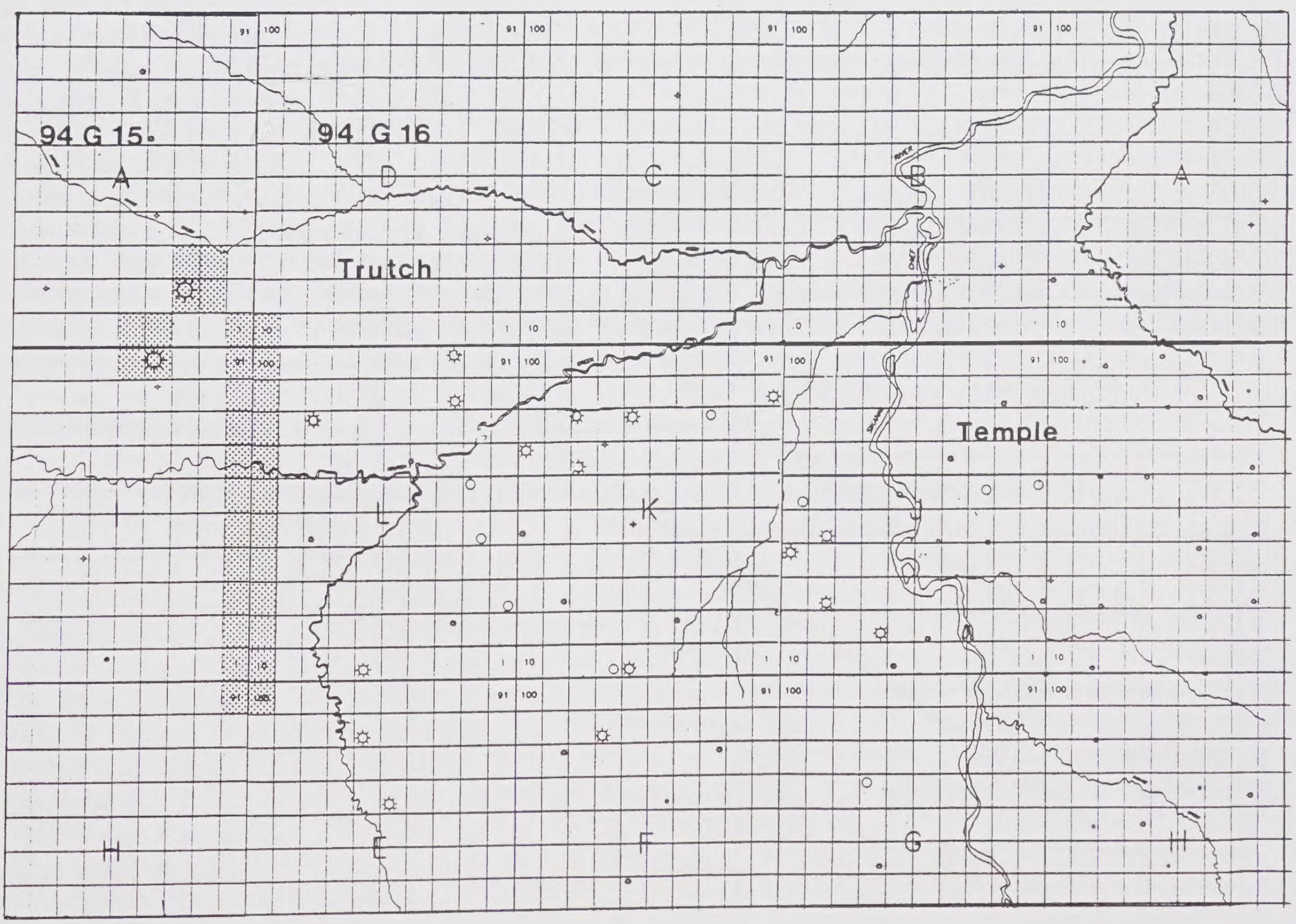
Wainwright

Subsequent to year end, the Company purchased a quarter section lease on a heavy oil prospect in the Wainwright area of Central Alberta. Geophysical data on the prospect indicates a well defined Dina channel in the heart of the Company's lands. Stade plans to drill its first well on the prospect in the fourth quarter of 1995. The lands have the potential to be developed on 10 acre spacing and significantly increase the Company's oil production. Stade has interests in 160 gross (69 net) acres on its Wainwright prospect.

Trutch, British Columbia

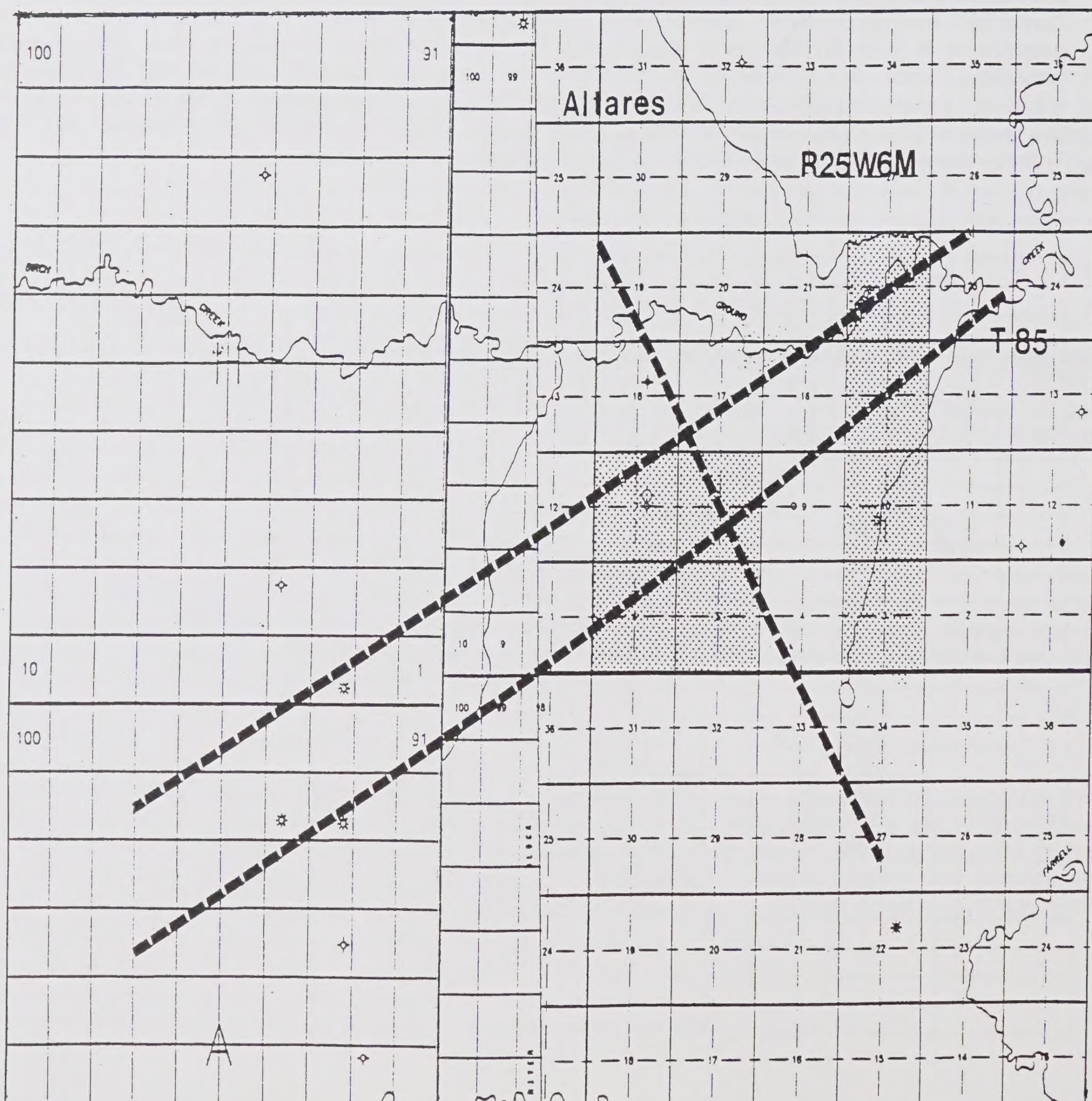
The Trutch prospect in N.E. British Columbia has the potential to become one of Stade's most substantial future assets. This developing Triassic Halfway pool is estimated to contain in excess of 500 BCF of in place gas reserves and 350 BCF of recoverable reserves. Individual wells in this, the Tommy Lakes Halfway "A" pool, are estimated to recover between 3 and 6 BCF and can deliver from 1 to 6 MMCFD. Nineteen wells are currently producing 41 MMCFD from the east end of the pool. Several other wells are scheduled to go on production in 1995. The majority of the area is only accessible in the winter months. Activity in the pool was at a peak during the last quarter of 1994 and the first quarter of 1995 with industry drilling 19 wells and licensing an additional 14 wells. A major pipeline river crossing was also completed in the first quarter of 1995 providing the area with additional accessability to gas markets. Fully developed, the Tommy Lakes pool could become one of British Columbia's largest producing gas fields.

During the past 18 months, Stade has acquired or purchased 5470 acres (gross) and 1548 acres (net) on the western side of the Tommy Lakes pool on its Trutch prospect. The lands include two suspended Halfway gas wells, both of which lie within the boundaries of the pool. The Company's Trutch prospect is an extension of the main Tommy Lakes pool and is mapped to extend for miles west and south of the Company's existing acreage. Stade's lands could contain over 30 BCF of gross recoverable gas. A potential tie in point for the gas is located only 2 miles north of the Company's lands with the main Westcoast Clarke Lake pipeline located 6 miles to the west, running north-south through the prospect. It is Stade's understanding that a proposal to construct a new gas processing facility on the Westcoast line to service the west side of the pool is under review. The Company will begin development of its Trutch prospect with the completion of its two existing wells in early 1996.



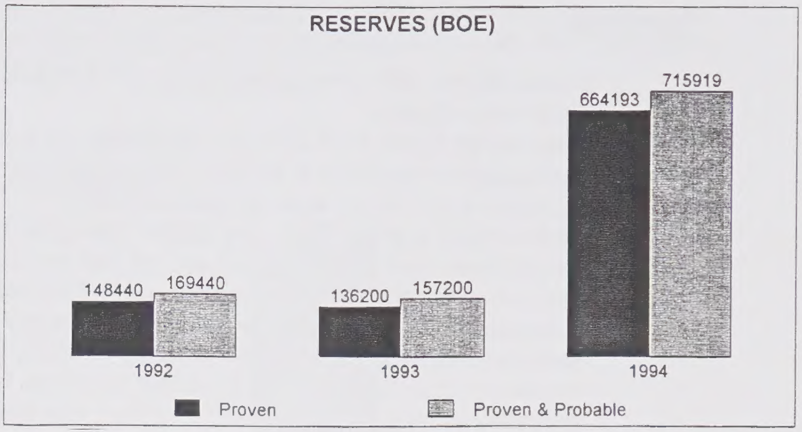
Altares, British Columbia

Stade's Altares prospect is located approximately 50 miles west of Fort St. John in N.E. British Columbia and is prospective for gas from the Bluesky formation. The Company has purchased and earned interests in 5280 acres (gross) and 1637 acres (net) on the prospect which is bounded by the Kobes Creek producing gas field to the north and the Altares Bluesky "A" pool to the west. A key well on the play, located 3 miles southwest of Stade's acreage, flowed at a stabilized rate of 3.5 MMCFD. In 1994, Stade participated in the unsuccessful recompletion of an old well at 6-10-85-25 W6 and the drilling of a well at 10-7-85-25 W6 on the play. The 10-7 well discovered in excess of 46 feet of porous Bluesky sand and conglomerate but the zone was damaged beyond repair after it was decided to drill deeper to evaluate other potential horizons. The encouragement provided by the well, the potential for significant longlife sweet gas reserves, and the proximity to pipeline infrastructure warrants further development of the prospect. Subsequent to year end, the Company participated in the shooting of 24 miles of seismic over the lands. The data is currently being processed with a view to drilling another well on the play in early 1996.



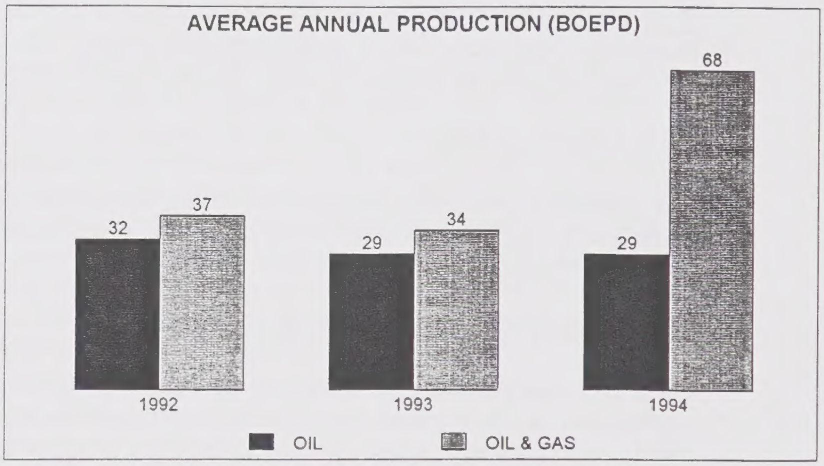
RESERVES

Stade's successful 1994 exploration and development drilling program resulted in the discovery of 30954 barrels of oil and 5.53 BCF of gas of which 22128 barrels and 5.31 BCF have been classified as proven. Additions to oil reserves were made at Gold Creek and Progress while gas additions were made at Lethbridge, Wembley, and Progress. After deducting 1994 production of 10550 barrels of oil and 142849 MCF of gas, the Company's year end reserves stood at 154504 barrels of oil and 5.61 BCF of gas. Eighty three percent of the oil reserves and ninety-five percent of the gas reserves have been classified as proven. Using a conversion of 10 MCF per barrel of oil, Stade's oil and gas reserves at year end totalled 715919 BOEs. The reserve life index of Stade's reserves, based on 1994 production volumes, is 14.6 years for oil, 39.3 years for natural gas, and 28.8 years on a BOE basis. The Company's division in reserves, on a BOE basis, is 78% gas and 22% oil.



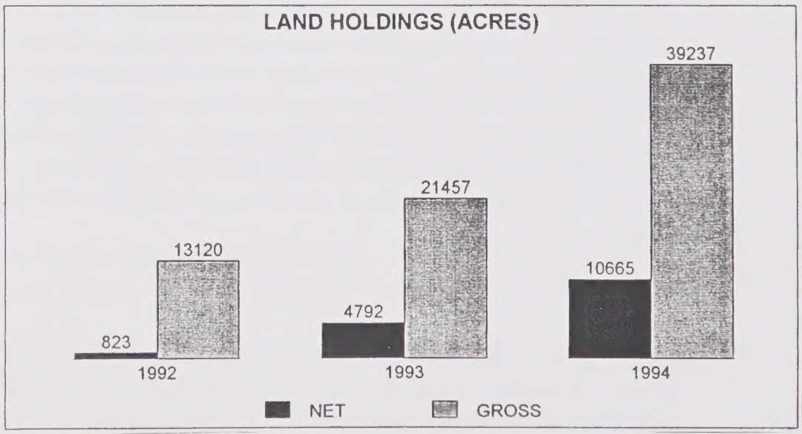
PRODUCTION

Natural gas production in 1994 increased 750% to average 391 MCFD as compared to 46 MCFD in 1993. This increase was a direct result of new production volumes at Wembley and Progress coming on stream late in the year. The Company's December gas production was approximately 1200 MCFD. Oil production remained unchanged at 29 bopd in 1994 as compared to 1993. Normal declines at Rose Creek and Pembina were offset by new oil production volumes at Gold Creek and Progress in the fourth quarter. December oil production averaged 50 bopd.



LAND HOLDINGS

During fiscal 1994, Stade purchased or earned a total of 17780 gross acres of land on 8 prospects. Subsequent to year end, the Company purchased or earned an additional 6229 gross acres increasing its inventory of developed and undeveloped lands to 45466 acres (gross) and 13642 acres (net). Of the 13,642 net acres, 9114 acres are undeveloped. Stade now has land holdings on a total of 11 internally generated prospects.



MANAGEMENT REVIEW

Highlights

* Raised $2,330,860 through the issue of 7,794,858 Class "A" common shares of the Company.
* Eliminated all debt.
* Invested $2.5 MM in oil and gas properties, an increase of 400% from 1993.
* Participated in the drilling of nine wells resulting in 7 gas wells and 1 oil well.
* Operated the first two wells in Stade's history.
* Discovered 5.5 BCF of gas and 30954 bbls of oil at a finding cost of $3.57 per BOE.
* Placed three new gas wells and one oil well on production late in the year increasing the Company's production to 1200 MCFD and 50 bopd in December.
* Increased the Company's land inventory to 39237 gross (10665 net) acres.
* Reduced production expenses to $3.36 per BOE from $4.92 per BOE in 1993.
* Increased cash flow 245% to $190,617 from $55,302 in 1993.
* Increased earnings 194% to $72,617 from $24,695 in 1993.

Stade entered 1994 with a mandate to increase shareholder value through the exploration and development of its many geological prospects. The Company continued its program of acquiring highly prospective lands and followed up by spending in excess of $2 MM on the drilling and completion of 9 wells in 1994. A further $0.5 MM was spent in the last half of the year to place 4 of the wells on production. The Company's aggressive exploration and development drilling program in 1994 resulted in substantial increases in reserves, production, productive potential, revenues, earnings, and cash flow and will serve as a base for further growth in 1995.

Revenue

Oil and gas revenue (net of royalties) was $417,810 in 1994 as compared to $245,615 in 1993, an increase of 70%. Production from the tie-in of 4 new wells late in 1994 provided $200,831 of new revenue to the Company. December 1994 revenue was approximately $ 95,000. Interest revenue declined 26% from $14,523 in 1993 to $10,748, primarily as a result of lower interest rates throughout the year.

Production Expenses

The additional production brought on stream late in the year had the direct effect of increasing production expenses by 33% to $83,592 from $62,820 in 1993. Expenses, on a per unit of production basis, declined 31.7% to $3.36 per BOE in 1994 from $4.92 in 1993.

General, Administrative and Other Expenses

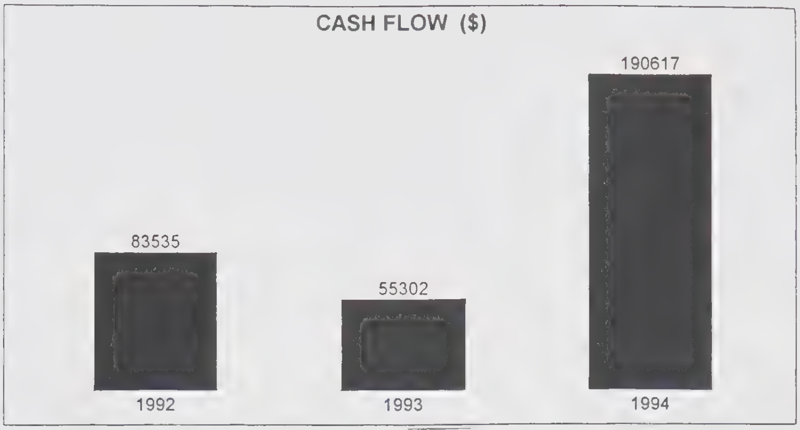
On a total basis, expenses increased by 28.5% to $272,349 in 1994 versus $212,016 in 1993. The largest component of this increase was depletion and depreciation, which rose by 68% to $118,000 from $ 70,000 in 1993 due to the major increase in the Company's production volumes. Significant increases in the Company's proven reserves served to reduce depletion and depreciation expense from $5.47 per BOE in 1993 to $4.75 per BOE in 1994. Excluding depletion and depreciation, expenses increased by 8.7% to $154,349 in 1994 from $142,016 in 1993. This increase was a combination of reduced interest expenses ($24,810) and higher general and administrative and other expenses ($37,143). The decrease in interest expense was due to lower rates of interest on the note payable of $688,197 to Golden Rule Resources Ltd. The note payable had originally been issued to finance the acquisition of the Company's Rose Creek and Pembina properties and was fully repaid at year end. The Company's higher levels of activity in 1994 and its efforts to focus on the development and operation of its properties had the effect of increasing general and administrative and other expenses. In addition, all costs associated with the completion of the prospectus financing late in 1994 were charged to G & A.

Earnings

Earnings after tax were $72,617 in 1994 as compared to $24,695 in 1993, an increase of 194%. The earnings in 1993 benefited by a one time $39,393 gain on the disposal of certain investments. Earnings in 1994 were significantly improved as a result of higher production revenues coupled with lower per unit production costs and other expenses.

Cash Flow

Cash flow from operations in 1994 increased 245% to $190,617 from $55,302 in 1993. Cash flow in December, 1994 was approximately $65,000 illustrating the impact of a full month of production from all the Company's producing wells.



Financing Activities

During the year ended December 31, 1994, Stade raised $2,330,860 in new equity, the proceeds of which were directed to the funding of the Company's active exploration and development program. The major part of this new equity was raised by a prospectus to the public which closed late in 1994. The prospectus had a two fold purpose. The first was to clear for trading 1,630,004 Class "A" Shares to be issued upon the exercise of the 815,002 Special Warrants issued in December 1993, and upon the exercise of 815,002, 1993 Flow through Purchase Warrants to be issued under the Special Warrants. The second was a further offering of 2,293,000 Units. Each unit consisted of one Class "A" share and one 1994 Flow-Through Purchase Warrant. Prior to December 31, 1994, a total of 1,177,000 of the 2,293,000 1994 Flow-Through purchase warrants were exercised. Other sources of funding included a private placement of 1,500,000 Flow-Through Class "A" Shares and the exercise of 2,523,150 Purchase Warrants by Golden Rule Resources Ltd.. Subsequent to year end, the Company raised an additional $550,000 from the exercise by private placement of 9% Convertible Debentures due March 31, 2000 and convertible into Class "A" Shares at the rate of $0.35 per share.

Outlook for 1995

Having developed a solid land inventory and reserve base in 1994, Stade looks forward to 1995 as another year of significant growth. Four of the gas wells drilled late in the year are scheduled to be tied in during the second half of 1995, thereby increasing the Company's production to approximately 60 bopd and 3600 MCFD. In addition, up to 8 development locations (five oil and three gas) have been identified and will be drilled in 1995 as follow ups to previous discoveries. Further external funding will be required, however, to finance the Company's ambitious exploration and development programs on its highly prospective undeveloped lands and to acquire additional lands on its many geological prospects. Pursuit of this funding is ongoing and will be timed to take advantage of strengthening equity markets. The Company expects to record sharply higher financial and operating results in 1995 on the strength of:

1) a full year of production from the four wells tied in late 1994.
2) new production from existing wells scheduled to be tied in at Lethbridge and Progress in the second half of 1995.
3) a successful development drilling program at Gold Creek, Wembley, and Rose Creek.

BOARD OF DIRECTORS' REPORT

The Board of Directors extends a welcome to all Stade shareholders. The preceding pages of this Annual Report describes your Company's growth and progress over the last year. We hope this information helped to give you a comprehensive overview of your Company.

The Board also confirms that the Annual Report has been prepared and presented by the Board of Directors of Stade and all information included in the report, including the financial statements, has been approved by the Board.

The Board also confirms that the financial statements in this Annual Report have been prepared by Management in accordance with generally accepted accounting principles. Other financial information in this report is consistent with the financial statements. Our auditors, Doane Raymond, are responsible for auditing the financial statements and for giving an opinion on them.

Chartered Accountants
Canadian Member Firm of
Grant Thornton International

Doane Raymond

Auditors' Report

To the Shareholders of
Stade Exploration Inc.

We have audited the balance sheets of Stade Exploration Inc. as at December 31, 1994 and 1993 and the statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
February 9, 1995, except for Note 9,
which is as of March 13, 1995

Doane Raymond
Chartered Accountants

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Stade Exploration Inc.
Balance Sheet

December 31	1994	1993
Assets		
Current		
Cash	$ 435,815	$ 703,104
Accounts receivable	112,228	42,087
	548,043	745,191
Exploration advances (Note 2)	326,264	355,874
Oil and gas properties (Note 3)	3,800,933	1,371,048
Mineral properties (Note 4)	761,869	761,760
	$ 5,437,109	$ 3,233,873
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 759,537	$ 103,492
Provision for site restoration and abandonments	1,600	-
Notes payable (Note 5)	-	688,197
	761,137	791,689
Shareholders' Equity		
Capital stock (Note 6)	5,739,083	3,577,913
Deficit	(1,063,111)	(1,135,728)
	4,675,972	2,442,185
	$ 5,437,109	$ 3,233,874

On behalf of the Board

Wilfred J. Wilson Director Bernie Z. Pinleson Director

See accompanying notes to the financial statements.

Stade Exploration Inc.
Statement of Operations and Deficit

Years Ended December 31	1994	1993
Revenue		
Oil and gas sales, net of royalties	$ 417,810	$ 245,615
Production costs	(83,592)	(62,820)
	334,218	182,795
Interest income	10,748	14,523
Total net revenue	344,966	197,318
Expenses		
Interest on long-term debt	59,175	83,985
Depletion and depreciation	118,000	70,000
General and administrative	57,179	38,180
Consulting	15,824	7,124
Professional fees	10,799	5,920
Transfer agent and exchanges	4,836	4,060
Reporting to shareholders	6,536	2,747
	272,349	212,016
Earnings (loss) before the undernoted	72,617	(14,698)
Gain on disposal of investments	-	39,393
Earnings before income taxes	72,617	24,695
Income taxes (Note 7)	-	-
Net earnings	72,617	24,695
Deficit, beginning of year	(1,135,728)	(1,160,423)
Deficit, end of year	$ (1,063,111)	$ (1,135,728)
Basic earnings per Class A share	0.7¢	0.4¢
Weighted average number of shares outstanding	10,225,101	6,699,100

See accompanying notes to the financial statements.

Stade Exploration Inc.
Statement of Changes in Financial Position
Years Ended December 31

	1994	1993
Financial resources generated from		
Operating activities		
Net earnings for the year	$ 72,617	$ 24,695
Items not involving cash		
Depletion	118,000	70,000
Gain on disposal of investments	-	(39,393)
	190,617	55,302
Net change in non-cash operating working capital	585,904	61,266
	776,521	116,568
Financing activities		
Issue of shares for cash	2,161,170	1,393,376
Investing activities		
Proceeds on disposal of investments	-	51,955
Financial resources generated from operating, financing and investing activities	2,937,691	1,561,899
Financial resources were used in:		
Financing activities		
Repayment of note payable	688,197	57,803
Investing activities		
Oil and gas property additions	2,546,285	470,914
Mineral property additions	109	255
Exploration advances	(29,611)	355,874
Investments	-	2,562
	2,516,783	829,605
Financial resources used in financing and investing activities	3,204,980	887,408
Increase (decrease) in cash	(267,289)	674,491
Cash, beginning of year	703,104	28,613
Cash, end of year	$ 435,815	$ 703,104

See accompanying notes to the financial statements.

1. Summary of significant accounting policies

Mineral properties

Costs relating to the acquisition, exploration and development of mineral properties are capitalized on an area of interest basis. These expenditures will be charged against income, through unit of production depletion, when properties are developed to the stage of commercial production. Where the Company's exploration commitments for an area of interest are performed under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the area of interest to the extent of costs incurred. The excess, if any, is credited to operations. If an area of interest is abandoned, the related costs are charged to operations.

The amounts shown for mineral properties represent costs to date and do not necessarily reflect present or future values.

Development of mineral properties and recovery of related costs are dependent upon capital financing arrangements, mineral market conditions, environmental considerations and general economic conditions.

Petroleum and natural gas properties

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses, costs of drilling both productive and non-productive wells and overhead charges directly related to exploration activities. Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

Depletion of exploration and development costs and depreciation of production equipment is provided using the unit-of-production method based upon estimated proven petroleum and natural gas reserves.

The carrying value of the Company's petroleum and natural gas properties and production equipment, net of recorded deferred income taxes, is compared annually to an estimate of future net cash flow from the production of proven reserves using year end prices, less estimated future general and administrative expenses, financing costs and income taxes. Should this comparison indicate an excess carrying value, the excess is charged against earnings as additional depletion and depreciation.

Estimated future net costs of well abandonments and site restoration aggregate $43,455 at December 31, 1994. An annual provision for site restoration and abandonments is computed on a unit-of-production basis and charged to operations as additional depletion and depreciation expense for the year, the accumulated provision is recorded as a non-current liability.

Joint ventures

Certain of the Company's exploration and development activities are conducted with others. These financial statements reflect only the Company's proportionate interest in such activities.

1. Summary of significant accounting policies (Continued)

Flow-through common shares

The Company credits capital stock with the full amount of proceeds of flow-through share issues, which transfer the deductibility of exploration expenses to the investor, including any premium paid for such deductions.

Earnings per share

Earnings per Class A share is calculated based upon the weighted average number of shares outstanding during the year. The exercise of options and warrants outlined in Note 6(c) to the financial statements is non-dilutive.

2. Exploration advances

Exploration advances represent unexpended funds received on the issue of flow-through shares. Such advances are to be expended on oil and gas properties by December 31, 1995.

3. Oil and gas properties

	1994	1993
Oil and gas properties	$ 3,546,186	$ 1,265,212
Production equipment	466,747	201,436
	4,012,933	1,466,648
Accumulated depletion and depreciation	(212,000)	(95,600)
	$ 3,800,933	$ 1,371,048

Approximately $1,081,000 (1993 - $145,000) of the foregoing oil and gas property costs, funded from the proceeds of flow-through share issues, have no cost basis for income tax purposes.

4. Mineral properties

	1994	1993
Dubuisson property - 50% undivided interest in five mineral claims, Dubuisson Township, Province of Quebec	$ 761,869	$ 761,760

5. Notes payable

	1994	1993
Demand promissory notes, payable to Golden Rule Resources Ltd. bearing interest at 1% per month, secured by petroleum and natural gas properties.	$ -	$ 688,197

6. **Capital Stock**

a) **Authorized:**
Unlimited number of voting Class A shares without par value
Unlimited number of non-voting preferred shares without par value, issuable in series

b) **Issued and to be issued:**

	Number of Shares	Stated Value
Issued:		
Class A shares		
Balance, December 31, 1992	5,100,047	$ 2,184,537
Issued for cash:		
Exercise of stock options (net of expenses of issue of $1,005)	477,500	46,745
Private placement with Golden Rule Resources Ltd. (net of expenses of issue of $4,130)	2,523,190	651,899
Private placement of flow-through shares (net of expenses of issue of $3,218)	592,000	174,382
Brokered private placement of flow-through shares (net of expenses of issue of $48,481)	815,002	277,520
Balance, December 31, 1993	9,507,739	3,335,083
To be issued pursuant to exercise of special warrants:		
Special warrants		
Balance, December 31, 1992	-	-
Issued for cash (net of expenses of issue of $42,420)	815,000	242,830
Balance, December 31, 1993	815,000	242,830
Total issued and to be issued, December 31, 1993	10,322,739	3,577,913
Issued for cash:		
Exercise of stock options	150,000	30,000
Private placement of flow-through shares	1,500,000	375,000
Exercise of 1993 flow-through purchase warrants	151,668	60,667
Exercise of warrants issued to Golden Rule Resources Ltd.	2,523,190	706,493
Pursuant to Prospectus to public (net of expenses of issue of $169,690)	2,293,000	518,210
Exercise of 1994 flow-through purchase warrants	1,177,000	470,800
	18,117,597	$ 5,739,083

The special warrants were deemed to be exercised on October 25, 1994 and the shares issued on that date.

6. **Capital stock** (Continued)

Of the 1,500,000 flow-through shares issued pursuant to the 1994 private placement, 770,000 shares were issued to officers, directors and a company controlled by a director.
Of the 592,000 flow-through shares issued pursuant to the 1993 private placement, 311,000 shares were issued to officers, directors and a company controlled by a director.

c) **Outstanding warrants and options:**

As at December 31, 1994, the Company has outstanding incentive stock options and share purchase warrants as follows:

1) Stock options:

	1994		1993	
Expiry Date	Number of Shares	Stated Price	Number of Shares	Stated Price
June 4, 1998	400,000	$ 0.20	550,000	$ 0.20
February 15, 1998	125,000	0.36	-	-
	525,000		550,000	

2) Warrants:

i) issued in conjunction with a Rights Offering, to purchase 633,821 Class A shares, exercisable at $0.28 per share until June 12, 1995.

ii) issued in conjunction with the flow-through private placement to purchase 592,000 Class A shares, exercisable at $0.40 per share to October 28, 1995.

iii) issued in conjunction with the brokered private placement to purchase 663,334 Class A shares, (on a flow-through basis at the option of the holder if exercised prior to December 31, 1995), exercisable at $0.40 per share until December 31, 1995.

7. Income taxes

a) The provision for income taxes differs from the expected result obtained by applying the combined Canadian Federal and Provincial income tax rate of approximately 44% to income before income taxes. The difference results from the following:

	1994	1993
Expected income tax expense	$ 31,950	$ 10,866
Increase (decrease) resulting from:		
Non-deductible crown charges	23,705	13,635
Depletion of assets without a tax base	17,517	4,649
Royalty tax credits included in income	(10,391)	-
Resource allowance	(25,210)	(12,607)
Share issue costs and other adjustments	(26,199)	(28,694)
	11,372	(12,151)
Depletion and depreciation in excess of amounts claimed for tax purposes	34,403	17,151
Current income taxes	45,775	5,000
Recovery through utilization of prior years losses	(45,775)	(5,000)
Tax provision	$ -	$ -

b) The Company has accumulated non-capital losses of approximately $133,000 and net capital losses of approximately $121,000 for income tax purposes, the related benefits of which have not been recognized in the financial statements. Unless sufficient taxable income is earned in future years, the non-capital losses will expire at various dates to 1998.

c) The Company has available the following amounts which may be deducted, at the annual rates indicated, in determining taxable income of future years.

	1994	1993	Rate
Canadian exploration expense	$1,487,000	$ 409,000	100%
Canadian development expense	$ 779,000	$ 725,200	30%
Canadian oil and gas property expense	$1,262,000	$1,017,800	10%
Undepreciated capital cost	$ 463,000	$ 200,000	25%
Share issue costs	$ 199,000	$ 89,400	20%

8. Related party transactions

Golden Rule Resources Ltd., which at December 31, 1994 held 27,85% of the voting shares of the Company and corporations in which certain of the Company's Officers or Directors are shareholders have provided, at usual professional rates, services as summarized below:

	1994	1993
Geological and exploration	$ 89,825	$ 36,921
Direct administration	57,710	30,294
	$ 147,535	$ 67,215
Interest on note payable to Golden Rule Resources Ltd.	$ 59,175	$ 83,985

Included in accounts payable at year end is $10,824 (1993 - $26,020) due to Golden Rule Resources Ltd. of which $7,780 (1993 - $5,374), relates to the foregoing services and $3,044 (1993 - $20,646), relates to the interest due on the notes payable.

During the year ended December 31, 1994, Golden Rule advanced to the Company $207,633 for the purchase of oil and gas leases. These advances were repaid prior to December 31, 1994.

9. Subsequent event

Subsequent to December 31, 1994, the Company has agreed, and received conditional regulatory approval, for a private placement of Convertible Debentures to a maximum of $550,000. The debentures will be issued in denominations of $10,000, bear interest at the rate of 9% per annum, payable quarterly and be convertible into Class A shares of the Company at a rate of $0.35 per Class A share. The proceeds will be used for exploration of the Company's oil and gas properties.

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